MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BBF 2644 – BANK MANAGEMENT

(All sections / Groups)

24 OCTOBER 2017
9.00a.m – 12p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of **TWO (2)** pages with **FIVE (5)** questions.
2. Answer all the questions. The distribution of the marks for each question is given.
3. Please write your answer in the Answer Booklet provided.

QUESTION 1

U.S Fed bank announced to hike the benchmark interest rates again in 2017. The new range will be 1 percent to 1.25 percent. This increase has marked as the second time after the great recession happened on 2007-2009?

a) Discuss why U.S Fed bank decided to hike again the Federal interest rates since 2015? (8 marks)

b) How this second hike of interest rate could impact bank's consumers (borrowers) and depositors? (12 marks)

(Total: 20 marks)

QUESTION 2

a) Why should banks and other corporate financial firms be concerned about their level of profitability and exposure to risk? (10 marks)

b) Montena Bank is expected to pay an annual dividend of RM4 per share on its stock in the current period and dividends are expected to grow 5 percent a year every year, and the minimum required return-to-equity capital based on the bank's perceived level of risk is 10 percent. Can you estimate the current value of the bank's stock? (5 marks)

(Total: 15 marks)

QUESTION 3

a) What is customer relationship doctrine, and explain what its implications for fund-raising by banking institutions? (10 marks)

b) The following information provides Montena Bank's balance sheet data:

Assets	Market Value (RM)	Rate (%)	Dur. (years)	Liabilities & Equity	Market Value (RM)	Rate (%)	Dur. (years)
Cash	200			1-yr. Time deposit	600	2	1.500
Business Loan	800	8	3.750	1-yr Certificate of deposit	500	4.5	3.125
T-bond	250	4	7.250	Equity	150		
Total	1,250			Total	1,250		

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(i) Estimate the weighted average duration of assets and liabilities. (10 marks)

(ii) Compute the bank's duration gap model to measure the interest rate risk. (5 marks)

(Total: 25 marks)

QUESTION 4

a) When determine the deposit pricing decisions, should a bank use the average historical cost of funds or marginal costs approach? Why? (5 marks)

b) The following information provides Montena Bank's balance sheet data:

Bank Assets		Bank Liabilities	
Cash & Treasury Bil	RM2,000	Deposits	RM8,000
Repurchase Agreements	RM1,000	Negotiable Certificate of Deposits	RM6,000
Municipal Bonds	RM1,500	Long-term Subordinated Debt	RM250
Home Mortgages	RM2,700	Common Stock	RM100
Collateralized Mortgage Obligation (CMO)	RM2,500	Surplus	RM300
Commercial Loans	RM1,500	Retained Earnings	RM350
Agricultural Loans	RM2,100		
Allowance for Loan Loss	RM (300)		
Bank premises	RM2,000		
Total	RM15,000		RM15,000

(i) What is the amount of risk-adjusted assets for Montena bank? (10 marks)

(ii) Calculate whether Morgan Bank has a capital deficiency, justify your answer. (5 marks)

(Total: 20 marks)

QUESTION 5

a) The loan department in the banking institutions must be very cautious and sensitive to the credit review. Justify why credit review is so significant? (8 marks)

b) What are the multiple factors that the banking institutions might take into consideration in approving or denying each loan request in the initial stage? (12 marks)

(Total: 20 marks)

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